

Resource Adequacy in MISO Zone 4

Ameren Illinois Response

Request for January 30, 2018 Comments

Ameren Illinois Company d/b/a Ameren Illinois (Ameren Illinois or the Company) appreciates the opportunity to provide comments on questions posed by the Commission. The Company responds to a majority of the questions posed by the Commission below.

I. Resource Adequacy Standards

- A. How should resource adequacy be defined and how does resource adequacy compare with or contrast with resiliency and reliability?

A key component of long-term resource adequacy is to ensure that the grid has sufficient electric resources to meet customer load requirements in future years. Customers depend on this happening in order to receive a reliable supply of power to their homes and businesses.

- B. What entities currently address resource adequacy, how do they do so, and how sufficient are such current measures?

Illinois is a retail choice state where utilities are responsible for delivering power to customers, while generators are responsible for selling power through the wholesale markets (MISO and/or the bilateral markets). In states where utilities own generation, the state Commission typically requires utilities to submit a resource plan, which identifies the planned mix of electric resources necessary to meet future load. This typically includes a mix of generation resources, as well as energy efficiency and demand response resources. In Illinois, no single entity is solely responsible for resource adequacy, although several entities including MISO, ICC and IPA have some influence on resource adequacy. Instead, Illinois relies primarily on market forces, and in some cases legislative policy, to incent developers to pursue new generation, energy efficiency and demand response to satisfy resource adequacy.

II. Resource Adequacy Measurement

- A. How much generation is currently available to meet Zone 4 resource adequacy requirements?

The best source of current data likely comes from the annual MISO OMS Survey and the planning parameters in advance of MISO's Planning Resource Auction. While the data may be a good proxy for current conditions, the data is dynamic over time, which makes it difficult to assess long-term generation availability. For this reason, Ameren Illinois has been an active stakeholder in multiple policy dialogs on this important topic and we have consistently stated our opinion that long-term resource adequacy within MISO Zone 4 will become a concern at some point. However, we also acknowledge that there appear to be sufficient resources in the market today and sufficient resources are forecast to be available in the market in the next 3-5 years. Thus, we would

characterize the need for resource adequacy concern to be in the mid-term to long-term range (e.g., 3+ years)

- B. What generation resources formerly meeting Zone 4 resource adequacy requirements have recently been lost due to retirement, derating, declining capacity factor, or otherwise?

No comment.

- C. What current generation resources available to meet Zone 4 resource adequacy requirements are at risk of becoming unavailable going forward and what are the implications of the loss of such resources?

Ameren Illinois does not have access to the information necessary to determine the financial viability of generation resources in Zone 4. However, we can generally respond that, because Illinois is a retail choice state, Zone 4 generation resources do not receive guaranteed revenues from ratepayers. Instead, 100% of their revenues come from the wholesale markets. This would logically create more risk for Zone 4 generation resources relative to rate regulated generation resources. To the extent that generation resources within Zone 4 are not receiving revenues to cover their cost of operation and earn a reasonable return on investment, logically some of these resources would eventually shut down. Further, if the shuttered resources are not replaced with new generation resources, energy efficiency and/or demand response, then over time resource adequacy could become a concern.

- D. What are the prospects for new generation resources becoming available to meet Zone 4 resource adequacy going forward?

Ameren Illinois believes generation developers are better positioned to answer this question. However, we acknowledge that the Future Energy Jobs Act (FEJA, Public Act 99-0906) will create prospects for new renewable generation and expanded energy efficiency in Illinois, although it is too early to predict the magnitude of future installations. Beyond FEJA, it appears Illinois will need to rely on current market forces to incent new generation resources, including the prompt year MISO capacity auction. It is unclear if this will be enough to incent new generation resources.

- E. What non-generation resources are and may be available to meet resource adequacy and how do such resources impact resource adequacy?

No comment.

- F. How well do existing programs and initiatives predict future resource adequacy?

No comment.

III. Market Design Impact on Resource Adequacy

- A. What alternative opportunities are available to resources that could otherwise be used to meet resource adequacy in Zone 4 and how do these opportunities impact Zone 4 resource adequacy?

No comment.

- B. How does the transmission system impact resource adequacy?

A robust transmission system allows more resources from outside Zone 4 to be utilized to support Zone 4 resource adequacy. As an example, the MISO Multi-Value Projects (MVPs) currently being constructed will increase regional reliability, enable public policy needs (such as increased renewable energy), and reduce the quantity of in-zone generation needed to serve load. The MVPs will enhance intra- and inter-zone generation flexibility, create a more robust regional transmission system that supports resource adequacy, increase the geographic diversity of wind resources and enable additional diversity.

The transmission system also impacts several design parameters used in the annual MISO Planning Resource Auction.

- C. How do facilities owned by municipals and cooperatives affect resource adequacy?

Ameren Illinois believes that resources owned by municipalities and cooperatives can and should be able to contribute to Zone 4 resource adequacy; specifically any resources in excess of load requirements would provide benefit to Zone 4.

- D. How does bilateral contracting, self-supply, and fixed resource adequacy planning affect resource adequacy?

These factors contribute to resource adequacy to some degree. However, Illinois retail choice makes it impossible for the IPA to practically utilize bilateral contracting to ensure resource adequacy. The IPA only procures capacity for the minority of load supplied by Ameren Illinois in Zone 4, and this quantity changes over time limiting the IPA's ability to procure long-term capacity.

- E. How do so-called out-of-market revenues (revenues separate and apart from those obtained in wholesale markets (e.g., Zero Emission payments or renewable energy credits)) impact resource adequacy?

No comment.

IV. Scope

- A. Please provide commentary on any relevant substantive or process issue you believe has not been adequately captured in the Sections above.

No comment.

V. Potential Policy Options

- A. What changes, if any, should be made to better enable measurement and assessment of what resources are available to meet Zone 4 resource adequacy requirements?

No comment.

- B. What changes, if any, should be made to MISO's capacity construct including to the MISO planning resource auction to better ensure resource adequacy?

No comment.

- C. What changes, if any, should be made to MISO's energy or ancillary service constructs that would help maintain resource adequacy?

While Ameren Illinois generally supports the consideration of modifications to the MISO markets to improve price formation, we believe it is unlikely modest tweaks to the market structure will be sufficient to ensure resource adequacy in the future.

- D. What actions should the Illinois Commerce Commission and/or the Illinois Power Agency take, if any, to address resource adequacy assuming no new legislative authority?

While Ameren Illinois acknowledges that such an approach has the potential to modestly enhance resource adequacy, such an approach could also result in adverse impacts on the price eligible retail customers pay for supply and potentially lead to volatile switching to or from Alternative Retail Electric Suppliers (ARES). The IPA currently considers many factors when determining the appropriate quantity of energy and capacity to be procured for eligible retail customers. One key factor is switching risk — the risk that customers will switch to or away from Ameren Illinois eligible retail load in the future. Increasing the amount of energy and capacity procured on behalf of the eligible retail customers could result in switching away from Ameren Illinois supply if the IPA procurement prices are higher than the prices available from ARES or the spot market. The resulting excess supply would then be sold through the MISO markets at prices lower than those procured by the IPA. Conversely, if the prices paid through IPA procurements are lower than those offered by ARES or the spot market, customers could leave their ARES and return to Ameren Illinois supply. The resulting shortfall of supply would then be procured through the MISO market at prices higher than the spot market. The point is that volatile switching can cause price swings to customers, which may be detrimental to retail competition. Historically, the uncertainty of future eligible retail load due to switching has limited the term of forward IPA hedging for both energy and capacity to no more than three years.

- E. What actions should the Illinois General Assembly take, if any, to address Zone 4 resource adequacy?

Section IX(2)(b)(ii) of the ICC MISO Zone 4 White Paper discusses an IPA FRAP procurement process whereby the IPA would procure multi-year capacity for ARES load.

Ameren Illinois interprets this section to be proposing a long-term process very similar to what is included in HB4141 and SB2250. Ameren Illinois believes such a long-term planning and procurement process could be a viable solution to ensure long-term resource adequacy. However, unless MISO projections of Zone 4 excess supply over the next few years change materially, we do not believe near-term implementation is warranted.

- F. Please describe any additional potential policy option(s) you would like to see considered or that you would recommend not be considered.

No comment.

- G. Is it important for any selected policy option to be market-based? If so, why? If not, why not?

No comment.